

A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

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Status Review

# **Colorado City Unified School District No. 14**

As of August 14, 2008

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**Debra K. Davenport**  
Auditor General

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OFFICE OF THE  
**AUDITOR GENERAL**

**WILLIAM THOMSON**  
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December 15, 2008

Governing Board  
Colorado City Unified School District No. 14  
P.O. Box 309  
Colorado City, AZ 86021-0309

Members of the Board:

In our July 2007 status review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR). We subsequently performed another status review of the District's internal controls as of August 14, 2008. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2007, audit reports and USFR Compliance Questionnaire, as well as other internal control deficiencies we were aware of at the time of our review. The purpose of our most recent status review was to determine whether the District was in substantial compliance with the USFR as of the date of that review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

We acknowledge the District's diligence in correcting its deficiencies. As a result, the District has complied with the USFR. However, we must emphasize that a number of deficiencies still exist. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls and to continue to comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

In December 2005 the Arizona State Board of Education placed the District in receivership pursuant to Arizona Revised Statutes (A.R.S.) §15-103. The purpose of our status review was not to determine whether the District is financially solvent in accordance with A.R.S. §15-103(J). Accordingly, we do not express an opinion on the District's financial solvency.

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Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport  
Auditor General

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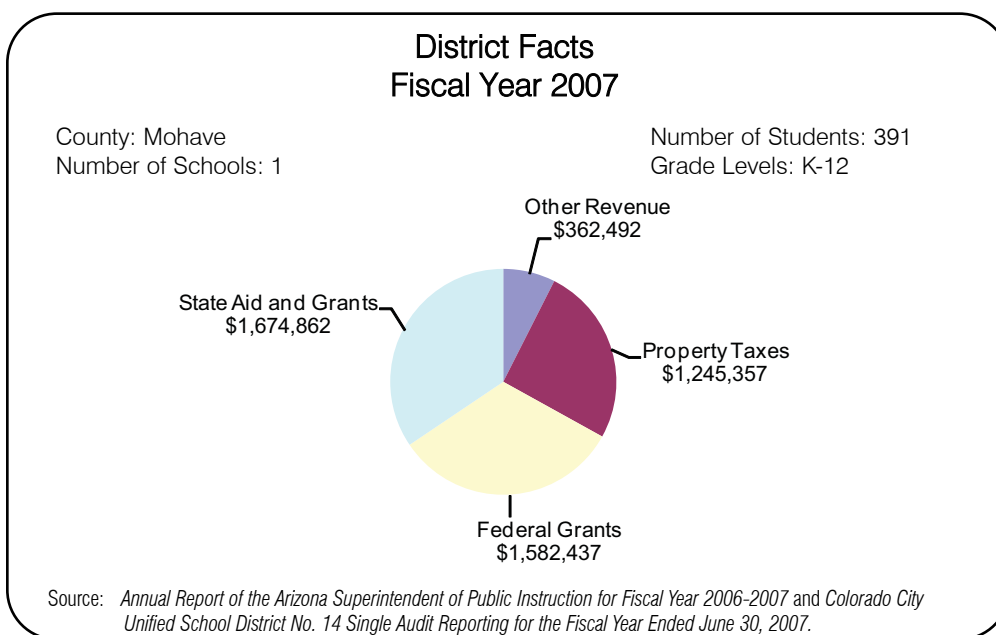


# INTRODUCTION

Colorado City Unified School District No. 14 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$4.8 million it received in fiscal year 2007 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District has complied with the USFR. However, we noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and continue to comply with the USFR. Our recommendations are described on the following pages.



# FINDING 1

## The District's controls over purchasing and expenditures should be improved

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

School District Procurement Rules for competitive sealed bidding promote open and fair competition among vendors to help ensure that districts receive the best possible value for the public monies they spend. In addition, the District spends tax dollars to purchase goods and services, so it is essential that the District follow proper expenditure processing procedures to help ensure expenditures are appropriate and adequately supported. However, the District did not always follow such procedures. Specifically, for request for proposals (RFP), where only one responsive proposal was received, the District did not maintain documentation that the price submitted was fair and reasonable. In addition, the District did not always make its credit card payments in a timely manner, which resulted in finance charges, and paid a travel-related cost on the district credit card in excess of the maximum reimbursement rates. Finally, the District did not always separate duties for preparing and approving purchase requisitions, purchase orders, and receiving reports.

## Recommendations

To improve controls over purchasing and expenditures and to comply with School District Procurement Rules, the District should:

- Award a contract to the only responsive bidder only after determining in writing that the price submitted was fair and reasonable, and that either other prospective bidders had reasonable opportunity to respond, or there was not adequate time for resolicitation.
- Compare credit card billing statements to supporting documentation and pay the related charges in a timely manner to avoid finance charges. If needed, request the credit card issuer to provide the credit card statements electronically, thus allowing the District more time to review the statements and make payments in a timely manner.
- Ensure that travel reimbursements and travel-related credit card charges are within the limits set forth by the Arizona Department of Administration.
- Require employees and Governing Board members to reimburse the District for any credit card charges that exceed the allowable travel reimbursement rates.
- Ensure that expenditure processing duties are adequately separated so that one employee does not request and approve purchases.

School District Procurement Rules describe procedures on how to appropriately use competitive sealed proposals in *Arizona Administrative Code* R7-2-1041.

USFR pages VI-G-7 and 8 provide guidance on the proper use of district credit cards.



# FINDING 2

## The District's controls over student activities monies should be strengthened

The District holds student activities monies raised through students' efforts for safekeeping. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, proper oversight was not established as the District did not always deposit student activities cash receipts in a timely manner. Also, purchase requisitions and purchase orders were not always prepared for student activities disbursements, and therefore, disbursements were not always approved by the student activities treasurer.

### Recommendations

To help strengthen controls over student activities monies, the District should ensure that student activities cash receipts are deposited intact daily, when significant, or at least weekly. Also, the District should prepare purchase requisitions and purchase orders and have them approved by the student activities treasurer prior to making purchases.

# FINDING 3

## The District should ensure the accuracy of its accounting records

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records are accurate and complete. However, the District did not fully accomplish this objective as expenditures were not always classified in accordance with the USFR Chart of Accounts and the District misclassified food service revenue transactions. Finally, the District allocated interest revenue among the levy funds based on budgeted amounts instead of the cash balances in the funds.

### Recommendations

To help ensure that the financial information recorded and reported by the District is accurate, the District should classify all financial transactions in accordance with the USFR Chart of Accounts. Additionally, the District should ensure the County School Superintendent (CSS) allocates interest revenue based on the cash balances in the funds on a monthly basis. If the District needs to adjust the allocation made by the CSS, the District should prepare a journal entry to reallocate interest revenues in its accounting records monthly.

# FINDING 4

## The District should improve controls to identify and document conflicts of interest

The District is responsible for ensuring that employees and Governing Board members comply with Arizona Revised Statutes (A.R.S.) Title 38, Chapter 3, Article 8, Conflict of Interest of Officers and Employees. This statute requires that any Governing Board member or employee (full-time, part-time, or on contract basis) who has or whose relative has a substantial interest in any contract, sale, purchase, service, or decision of a school district must disclose this interest. The interest must be disclosed in writing and retained in a file exclusively for that purpose with the District. This file is public record. However, the District's conflict-of-interest forms were only used to identify relatives of employees who the District also employed. Also, the conflict-of-interest forms did not provide space to describe the nature of the conflict or to identify other potential conflicts that may exist, such as if the employee or their relative owns or has a substantial interest in a business that is involved with a contract, sale, purchase, or service with the District.

### Recommendations

The District should revise its conflict-of-interest forms to allow all Governing Board members and employees who have or whose relative has a substantial interest in any contract, sale, purchase, service, or decision to file a conflict-of-interest statement in order to disclose the specific conflict on the form. A.R.S. §38-502(9) defines a relative as a parent, child, sister, brother, spouse, grandchild, grandparent, mother-in-law, father-in-law, brother-in-law, sister-in-law, or stepchild. If an employee supervises a relative, the conflict-of-interest statement should describe the relationship, and the supervisor must refrain from participating in decisions or contracts related to that relative, such as approving pay rates. A file should be maintained for public inspection of all known conflicts of interests. A.R.S. §§38-502 and 503.